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TRANSFER AGENTS

The Marine Midland Trust Company of New York, N. Y.

The Corporation Trust Company of Jersey City, N. J.

REGISTRAR

Chemical Bank New York Trust Company, New York, N. Y.

AUDITORS

Ernst & Ernst

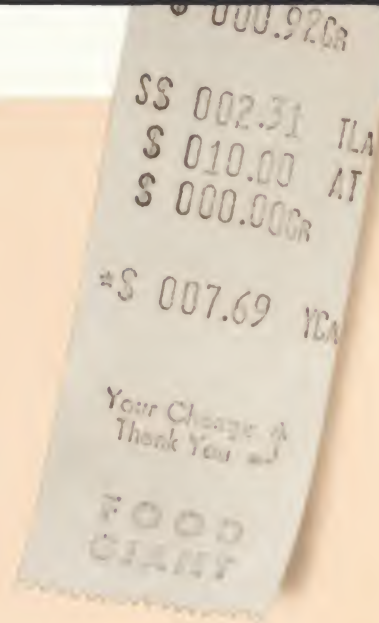
COUNSEL

Kaye, Scholer, Fierman, Hays & Handler, New York, N. Y.

David B. Sherwood, Beverly Hills, California

FOOD GIANT MARKETS, INC. / PRINCIPAL OFFICE

12500 East Slauson Avenue / Santa Fe Springs, California



TO OUR SHAREHOLDERS:

The consolidated net sales of Food Giant Markets, Inc. and its subsidiaries for the 52-week period ended February 2, 1964, were \$273,085,628, as against \$221,392,319 for the 53-week previous year.

Profits, before taxes, of \$6,472,582 compare with the previous fiscal year's pre-tax earnings of \$6,841,354. Consolidated net income, after Federal income taxes, but before special items, was \$3,605,582, which, after provision for preferred dividends, is equivalent to \$1.17 per share on 2,955,537 shares of common stock outstanding as of February 2, 1964. This compares with \$3,701,354, which, after provision for preferred stock dividends, equals \$1.20 per share on an equivalent number of shares.

In 1963, the Company initiated a major change in its accounting approach whereby all pre-opening store expenses are written off as incurred. On this pay-as-you-go basis, pre-opening store expenses for 1963 amounted to \$608,687 before taxes, as compared with \$205,902 in 1962. As a result of this change in policy, all prior years' deferred pre-opening expenses, amounting to \$851,628 before taxes, were also written off in 1963. This item, plus appropriate provision for Federal and franchise tax assessments for the years 1957 through 1962, certain other non-recurring charges, and after crediting appropriate related deferred income tax credits, resulted in an additional special non-recurring charge against 1963 earnings amounting to \$348,322, equivalent to \$.12 per share on the common stock. (See

Statement of Consolidated Income and Retained Earnings — Special Items.)

The balance sheet of your Company at the 1963 year end continues to show a healthy financial condition. Current assets at February 2, 1964, were \$35,026,538, with current liabilities of \$19,330,305, reflecting a year-end current ratio of 1.8 to 1, and working capital of \$15,696,233. Two significant changes during the year helped to bring about this condition:

On November 14, 1963, your Company completed a financing program with The Prudential Insurance Company of America, increasing its loan to \$11,000,000 from \$9,230,000. This loan, which provides for an extended and more favorable amortization schedule, will be used to further the Company's growth program and to provide working capital.

As of February 2, 1964, your Company took final possession of the seven units purchased from McDaniel's which, at year end, enhanced working capital in the amount of \$886,000.

The cash flow resulting from retained earnings and depreciation will continue to amply finance your Company's expansion program.

It is of interest to note that in the period December 31, 1958 to February 2, 1964, the stockholders' equity approximately doubled, increasing from \$14,646,290 to \$28,134,476.

Two regular semi-annual cash dividends aggregating \$.40 on the preferred stock were paid in 1963. In addition, two semi-annual stock dividends, aggregating 4%, were paid on the common stock of the Company.

During 1963 your Company opened six Food Giant supermarkets and three Unimart low-cost distribution centers representing part of the thirty-unit expansion program described in the 1962 Annual Report. For the fiscal period commencing February 2, 1964, sales of the McDaniel's units, approximately \$17,750,000 per year, will be included in the operations. They were not included in the sales for last year. It is expected that during the current fiscal year there will be opened nine supermarkets, four free-standing Builders Emporium units and one Unimart; the balance of the program will be completed in the 1965 fiscal year.⁽¹⁾ The continuing growth of the Southern California community supports the desirability of preparing to meet the demands of the enlarged population of this area.

Overall margins in 1963 were affected by the longer period required for new units to achieve their potential sales and profit margin. As these newly opened and future units develop their realizable objectives, your management is confident that your Company will recover its historically high net ratio to sales.

The operations of Meyenberg Milk Products,

Inc., a wholly-owned subsidiary, and Golden Creme Farms, in which we own controlling interest, reflect the improvement in their respective competitive positions, resulting from the automation and expansion programs completed in 1962.

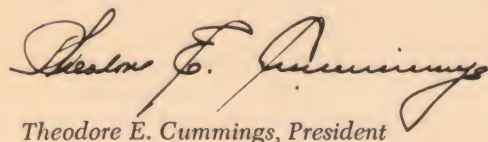
The consolidated administrative offices in Santa Fe Springs, with its modern electronic data processing equipment, continue to make possible more efficient supervision of accounting and inventory control, and make available reductions in cost of operation.

A new five-year, industry-wide labor contract for supermarket operating employees went into effect April 1, 1964. Accordingly, your Company is looking forward to an additional five years of satisfactory labor relations.

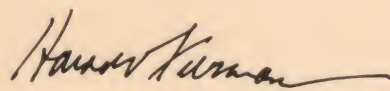
Harold G. Ward, on December 20, 1963, resigned as Executive Vice President of the Company for personal reasons. His duties have been assumed by other management personnel.

The loyalty and ability of our employees and the continuing support of our shareholders, customers, and suppliers inspires the confidence with which your management faces the future operation of the Company.

⁽¹⁾The Food Giant merchandising complex, on February 2, 1964, consisted of sixty-two supermarkets, seven low-cost distribution centers, twelve hard goods "do-it-yourself" operations, and seven package liquor stores.



Theodore E. Cummings, President



Harold L. Fierman, Chairman of the Board



STATEMENT OF CONSOLIDATED FINANCIAL POSITION /FOOD GIANT MARKETS,

ASSETS

	February 2, 1964	February 3, 1963
CURRENT ASSETS		
Cash	\$ 3,670,169	\$ 2,802,521
Trade accounts receivable, less allowances for doubtful (1964 — \$112,711; 1963 — \$52,047)	6,728,156	3,122,198
Merchandise inventories — generally at lower of average cost or market ..	22,266,926	20,486,073
Prepaid expenses	1,635,868	1,376,554
Properties and equipment, subject to agreement of sale and lease-back, less interim financing (1964 — \$1,178,000; 1963 — \$2,550,000)	725,419	574,325
TOTAL CURRENT ASSETS	\$ 35,026,538	\$ 28,361,671
INVESTMENTS AND OTHER ASSETS		
Investments in Giant Realty, Inc. and Glen-Brand, Inc. — at equity in net assets	\$ 85,084	\$ 78,362
Investment in McDaniel's Markets — Note C		2,384,307
Investments in affiliates (1964 — \$1,437,830; 1963 — \$1,552,272) and other capital stocks — at cost	1,462,356	1,599,548
Notes receivable	585,397	
Liquor licenses and sundry	1,588,987	1,636,594
Trademarks, patents, and franchises — at cost less amortization	130,940	139,049
Deferred charges	476,591	934,010
TOTAL INVESTMENTS AND OTHER ASSETS	\$ 4,329,355	\$ 6,771,870
PROPERTY, PLANT, AND EQUIPMENT — on the basis of cost		
Land (1964 — \$120,250; 1963 — \$70,250), buildings, fixtures and equipment, leaseholds, and leasehold improvements	\$ 31,695,425	\$ 27,051,684
Less allowances for depreciation and amortization	12,131,886	9,132,172
	\$ 19,563,539	\$ 17,919,512
Deposits on purchase of equipment having a total cost of: 1964 — \$404,741; 1963 — \$385,000	238,666	144,653
TOTAL PROPERTY, PLANT, AND EQUIPMENT	\$ 19,802,205	\$ 18,064,165
	<u>\$ 59,158,098</u>	<u>\$ 53,197,706</u>



INC. AND CONSOLIDATED SUBSIDIARIES

LIABILITIES AND STOCKHOLDERS' EQUITY

	February 2, 1964	February 2, 1963
CURRENT LIABILITIES		
Trade accounts payable	\$ 14,288,473	\$ 12,605,139
Salaries and wages, payroll taxes, and amounts withheld from payrolls ..	1,941,891	1,591,878
Accrued taxes, interest, rent, and other expenses	1,244,831	713,475
Federal taxes on income — estimated	1,635,503	1,882,717
Current portion of long-term debt	219,607	1,008,095
TOTAL CURRENT LIABILITIES	\$ 19,330,305	\$ 17,801,304
LONG-TERM DEBT — less amounts included in current liabilities		
5¾ % promissory note payable to insurance company — payable \$725,000 annually beginning March 1, 1965 — Note D	\$ 11,000,000	\$ 9,230,000
Other long-term debt	66,286	221,570
TOTAL LONG-TERM DEBT	\$ 11,066,286	\$ 9,451,570
DEFERRED FEDERAL TAXES ON INCOME — Note E	\$ 627,031	\$ 910,257
STOCKHOLDERS' EQUITY		
Capital stock — Notes F and G:		
Preferred Stock, par value \$10 a share:		
4% Cumulative Convertible Preferred Stock; authorized, issued, and outstanding 1964 — 391,617 shares, 1963 — 398,291 shares	\$ 3,916,170	\$ 3,982,910
Other, not presently defined; authorized 522,510 shares, none outstanding	0	0
Common Stock, par value \$1 a share:		
Authorized 5,000,000 shares; issued and outstanding 1964 — 3,053,726 shares, 1963 — 2,934,006 shares (including 98,189 shares in treasury)	3,053,726	2,934,006
Additional capital paid in — Note F	16,149,900	14,011,523
Retained earnings — Note D	7,204,079	6,295,535
	\$ 30,323,875	\$ 27,223,974
Less Common Stock in treasury — 98,189 shares at cost	2,189,399	2,189,399
TOTAL STOCKHOLDERS' EQUITY	\$ 28,134,476	\$ 25,034,575
CONTINGENT LIABILITY AND LONG-TERM LEASES		
Notes H and I		
	\$ 59,158,098	\$ 53,197,706

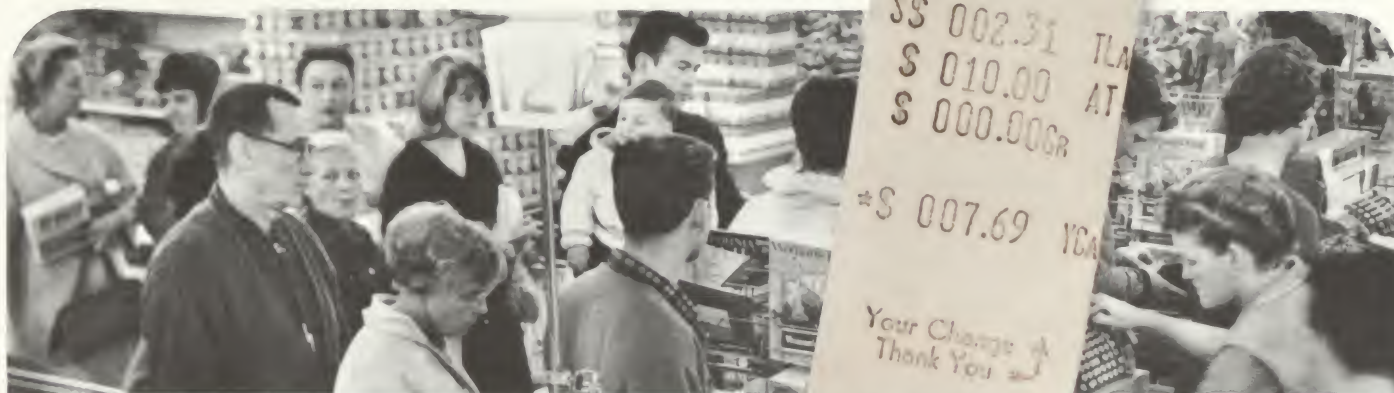
See notes to financial statements

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS

FOOD GIANT MARKETS, INC. AND CONSOLIDATED SUBSIDIARIES

	Fiscal Years Ended	
	February 2, 1964 (52 weeks)	February 3, 1963 (53 weeks)
Net sales	\$273,085,628	\$221,392,319
Cost of merchandise sold	211,924,402	171,664,690
	\$ 61,161,226	\$ 49,727,629
Selling, administrative, and general expenses	55,737,728	43,566,097
	\$ 5,423,498	\$ 6,161,532
Other income (capital gains, rents, dividends, and sundry earnings)	2,224,062	1,527,490
	\$ 7,647,560	\$ 7,689,022
Other deductions:		
Interest on long-term debt	\$ 595,961	\$ 499,911
Other interest	372,244	260,649
Miscellaneous	206,773	87,108
	\$ 1,174,978	\$ 847,668
INCOME BEFORE INCOME TAXES	\$ 6,472,582	\$ 6,841,354
Estimated federal income taxes, including taxes deferred to future years (1964 — \$347,643; 1963 — \$698,796)	2,867,000	3,140,000
NET INCOME	\$ 3,605,582	\$ 3,701,354
Special items:		
Store preopening expenses incurred in prior years, less appli- cable income taxes of \$437,717 — Note B	\$ 413,911	
Deferred portion of prior years 7% investment credit	(193,152)	
Prior years federal income taxes, and related adjustments arising from Revenue Agent's examination	39,315	
Miscellaneous, less applicable income taxes of \$95,436	88,248	
	\$ 348,322	
NET INCOME AND SPECIAL ITEMS	\$ 3,257,260	\$ 3,701,354
Retained earnings at beginning of year	6,295,535	4,629,753
	\$ 9,552,795	\$ 8,331,107
Stock dividends paid — 4% in each year (at approximate market value at date of issuance): 1964 — 114,719 shares; 1963 — 109,916 shares	\$ 2,191,429	\$ 1,875,899
Cash dividends paid on Preferred Stock (\$.40 a share)	157,287	159,673
	\$ 2,348,716	\$ 2,035,572
RETAINED EARNINGS AT END OF YEAR	\$ 7,204,079	\$ 6,295,535
Provision for depreciation and amortization of property, plant, and equipment amounted to: 1964 — \$2,713,850; 1963 — \$2,535,181		

See notes to financial statements



NOTES TO FINANCIAL STATEMENTS

FOOD GIANT MARKETS, INC. AND CONSOLIDATED SUBSIDIARIES / FEBRUARY 2, 1964

NOTE A — PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and certain wholly-owned subsidiaries (Meyenberg Milk Products, Inc., Unimart, Inc., B. E. Enterprises, Inc., B. E. Properties, Inc., and Associated Produce Company). The statements do not include the accounts of Giant Realty, Inc. or Glen-Brand, Inc. (incorporated May 20, 1963), wholly-owned real estate subsidiaries whose combined statements are shown separately. All significant inter-company accounts and transactions have been eliminated in consolidation.

NOTE B — CHANGE IN ACCOUNTING POLICY

The Company's policy of amortizing store preopening expenses over periods not in excess of three years after store opening was changed during the year to one of charging these expenses to operations in the month of store opening. Accordingly, the unamortized preopening expenses deferred at February 3, 1963 have been charged as a special item. This change resulted in a decrease in net income for the year of approximately \$60,000.

NOTE C — CONSUMMATION OF PURCHASE OF McDANIEL'S MARKETS

On February 27, 1964, the U. S. District Court issued an Order Approving Compromise of Controversy in connection with the challenge by the Bankruptcy Court of the purchase in 1961 of nine McDaniel's supermarkets by the Company. Accordingly, the Company transferred its investment (\$2,330,872 at February 2, 1964) in McDaniel's Markets to the appropriate accounts in the statement of financial position. Operations of the markets have been excluded from the statement of consolidated income.

NOTE D — LONG-TERM DEBT

The loan agreement relating to the note payable to an insurance company places certain restrictions on the amount of funded debt and on the amount of current debt from borrowings, and requires the Company to maintain consolidated working capital of \$11,000,000. The agreement also provides that the Company cannot pay cash dividends or acquire its own stock except out of consolidated net income which is defined in the agreement as the sum of \$600,000 plus 70% of consolidated net income subsequent to November 3, 1963. Under this restriction, retained earnings available for the payment of cash dividends at February 2, 1964, was \$1,145,145.

NOTE E — FEDERAL TAXES ON INCOME

Provision for depreciation of property and equipment is computed on the straight-line method for financial reporting purposes and on an accelerated method on certain items for tax purposes. The related tax benefit is deferred and will be credited to income in subsequent periods when the related book charges to income exceed allowable federal income tax deductions.

The investment credit for 1964 of \$301,644, allowed by the Revenue Acts of 1962 and 1964 has been recognized as an increase in net income of the current year. The deferred portion of the prior year's investment credit has been reflected as a special item.

NOTE F — CHANGES IN CAPITAL STOCK AND

ADDITIONAL CAPITAL PAID IN

Changes during the year in capital stock and additional capital paid in are summarized as follows:

	4% Cumulative Convertible Preferred Stock	Common Stock	Additional Capital Paid In
Balances at beginning of year	\$3,982,910	\$2,934,006	\$14,011,523
Conversion of 6,674 shares of Preferred Stock into 5,001 shares of Common Stock	(66,740)	5,001	61,667
2% stock dividends paid — 56,778 shares on July 1, 1963, and 57,941 shares on December 16, 1963, at approximate market value at date of issuance		114,719	2,076,710
Balances at end of year	\$3,916,170	\$3,053,726	\$16,149,900

The Preferred Stock is issuable in series under such terms and conditions as the Board of Directors may determine. The series presently outstanding may be redeemed at any time at a redemption price equal to \$10.50 a share plus dividends accrued to the redemption date, and in the event of voluntary or involuntary liquidation or dissolution, is entitled to \$10 a share plus dividends accrued to the date of such liquidation or dissolution. At the option of the holder thereof, the shares are convertible into fully-paid Common Stock of the Company at the rate of three-quarters of a share of Common Stock for each share of Preferred Stock. At February 2, 1964, a total of 293,713 shares of Common Stock was reserved for such conversion.

NOTE G — STOCK OPTIONS

The Company's restricted stock option plan, as amended, provides that options may be granted to officers and key employees to purchase shares of the Company's unissued or reacquired Common Stock at a price of not less than 100% of the fair market value of the shares on the grant date and in no event less than \$17 a share. The options are for a term of five years and are exercisable in three annual installments beginning one year after granting for a maximum of 40% of the optioned shares with the balance becoming exercisable in the two succeeding years.

At February 3, 1963, options for 58,815 shares were outstanding and 8,607 shares were reserved for future grants. During the fiscal year ended February 2, 1964, no options were granted or exercised, and options for 18,357 shares lapsed. At the June 1963 meeting, the shareholders approved an amendment to the plan to increase the shares reserved for grant to 100,000 shares at that date. At February 2, 1964 (after giving effect to stock dividends declared during the year) options for 42,371 shares at prices ranging from \$14.49 to \$25.96 a share were outstanding, and 61,669 shares were reserved for future grants. There have been no charges or credits to income with respect to the options.

NOTE H — LONG-TERM LEASES

The companies occupy certain premises under leases expiring more than three years from February 2, 1964, for which the aggregate minimum annual rentals approximate \$5,000,000 (including approximately \$260,000 for premises owned by Giant Realty, Inc., an unconsolidated subsidiary). Many of these leases provide for additional rent based upon sales and also provide that the lessee shall pay certain taxes, insurance, and other charges. In addition, the companies have executed leases for additional locations requiring minimum annual rents of \$932,000, which were unoccupied at February 2, 1964.

The companies also are liable for annual rent of approximately \$1,410,000 in connection with the leasing of delivery and store equipment over periods ranging to December, 1971.

NOTE I — CONTINGENT LIABILITY

At February 2, 1964, the Company was contingently liable as endorser on a \$780,000 note receivable that had been sold. This note had been received on the sale of certain assets of the Company.

FOOD GIANT MARKETS, INC. COMPARISON FOR SIX-YEAR PERIOD 1958-1963

	1963	1962*	1961**	1960	1959*	1958
Net Sales	\$273,085,628	\$221,392,319	\$196,532,509	\$136,645,328	\$94,907,994	\$71,017,566
Earnings before Federal Income Tax	6,472,582	6,841,354	5,700,734	5,763,591	3,018,841	1,522,020†
Federal Taxes on Income	2,867,000	3,140,000	2,689,600	2,714,000	— ‡	— ‡
Net Earnings	3,605,582‡‡‡	3,701,354	3,011,134	3,049,591	3,018,841	1,522,020
Depreciation and Amortization	2,713,850	2,535,181	2,520,246	1,824,392	1,245,090	1,091,238
Cash Flow (net earnings plus amortization and depreciation)	6,319,432	6,236,535	5,531,380	4,873,983	4,263,931	2,613,258
Earnings per Share on Common Stock***	1.17‡‡‡	1.20	.97	1.08	1.07	.48
Working Capital	15,696,233	11,395,367‡‡	10,059,200‡‡	8,772,145	6,958,277	10,061,397
Stockholders' Equity	28,134,476	25,034,575	21,427,656	19,035,211	17,431,260	14,646,290
Common Shares Outstanding at Year End***	2,955,537	2,835,817	2,785,665	2,509,828	2,462,349	2,301,774

*53-week period

**56-week period

***Adjusted for stock dividends paid and three-for-two stock split.

†Net sales do not reflect sales of Magic Chef Stove Division; however, earnings include special and unusual losses relating to Magic Chef in the amount of \$1,503,056.

‡Provision for Federal Taxes on Income not required due to prior year's tax loss carry over.

‡‡Includes \$835,000 in 1962 and \$1,120,000 in 1961 of net current assets reflected in balance sheet under caption "Investments and Other Assets — Investment in McDaniel's Markets" (See Note B of Notes to Financial Statement).

‡‡‡Before special non-recurring charge against 1963 after-tax earnings of \$348,322, equivalent to \$.12 per share.

To the Stockholders and Board of Directors Food Giant Markets, Inc., Santa Fe Springs, Calif.

We have examined the statement of consolidated financial position of Food Giant Markets, Inc. and consolidated subsidiaries and the statement of combined financial position of Giant Realty, Inc. and Glen-Brand, Inc., as of February 2, 1964, and the related statements of income and retained earnings for the fiscal year then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of financial position and statements of income and retained earnings

present fairly the consolidated financial position of Food Giant Markets, Inc. and consolidated subsidiaries and the combined financial position of Giant Realty, Inc. and Glen-Brand, Inc. at February 2, 1964, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles which, except for the change (which we approve) explained in Note B to the financial statements, have been applied on a basis consistent with that of the preceding year.

ERNST & ERNST

Los Angeles, California, April 8, 1964

STATEMENT OF COMBINED INCOME AND RETAINED EARNINGS

GIANT REALTY, INC. AND GLEN-BRAND, INC.

	February 2, 1964	February 3, 1963
ASSETS		
Cash	\$ 24,424	\$ 12,938
Rent receivable	72,143	72,143
Other assets	19,125	20,045
Property (subject to mortgage note payable) — on the basis of cost:		
Land	\$ 697,833	\$ 697,833
Buildings	2,597,000	2,597,000
	\$ 3,294,833	\$ 3,294,833
Less allowance for depreciation	113,619	48,694
	\$ 3,181,214	\$ 3,246,139
	<u>\$ 3,296,906</u>	<u>\$ 3,351,265</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Interest	\$ 49,802	\$ 51,320
6% First Mortgage Note payable to a foundation — due \$126,775 semi-annually, including interest; final installment due May 1, 1987 — also secured by assignment of the lease applicable to the Company's property	3,159,910	3,220,142
Federal taxes on income — estimated	2,110	1,441
Stockholder's equity:		
Capital stock (all owned by Food Giant Markets, Inc.):		
Giant Realty, Inc. — no par value; authorized 100,000 shares; issued and outstanding 500 shares — stated capital	\$ 5,000	\$ 5,000
Glen-Brand, Inc. — par value \$100 per share; authorized 250 shares; issued and outstanding 10 shares	1,000	
Additional capital paid in	70,000	70,000
Retained earnings	9,084	3,362
	<u>\$ 85,084</u>	<u>\$ 78,362</u>
	<u>\$ 3,296,906</u>	<u>\$ 3,351,265</u>

STATEMENT OF COMBINED FINANCIAL POSITION

GIANT REALTY, INC. AND GLEN-BRAND, INC.

	Fiscal years ended	
	February 2, 1964 (52 weeks)	February 3, 1963 (53 weeks)
Rental income from Food Giant Markets, Inc.	\$ 260,000	\$ 202,143
Other income	5,311	
	\$ 265,311	\$ 202,143
Expenses:		
Interest	\$ 190,574	\$ 147,121
Depreciation	64,925	48,694
Other	1,953	1,525
	\$ 257,452	\$ 197,340
INCOME BEFORE INCOME TAXES	\$ 7,859	\$ 4,803
Estimated federal income taxes	2,137	1,441
NET INCOME	\$ 5,722	\$ 3,362
Retained earnings at beginning of year	3,362	0
RETAINED EARNINGS AT END OF YEAR	<u>\$ 9,084</u>	<u>\$ 3,362</u>



BUILDERS EMPORIUM
 ● EXISTING
 ○ PLANNING
 ○ UNDER CONSTRUCTION



UNIMART
 ● EXISTING
 ○ UNDER CONSTRUCTION
 ○ PLANNING
 ★ OPENED IN 1963



